

**AUDITED FINANCIAL STATEMENTS
REQUIRED SUPPLEMENTAL INFORMATION
OTHER FINANCIAL INFORMATION
AND SUPPLEMENTAL REPORT**

**TOWNSHIP OF ONTONAGON
ONTONAGON COUNTY, MICHIGAN**

March 31, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name TOWNSHIP OF ONTONAGON	County ONTONAGON
Fiscal Year End MARCH 31, 2006	Opinion Date AUGUST 16, 2006	Date Audit Report Submitted to State SEPTEMBER 27, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☐ ☒ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☐ ☒ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The Letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	NOT REQUIRED	
Certified Public Accountant (Firm Name) JOKI MAKELA & POLLACK PLLC		Telephone Number (906) 932-4430	
Street Address 301 N SUFFOLK STREET		City IRONWOOD	State Zip MI 49938
Authorizing CPA Signature <i>Joki Makela; Pollack, PLLC</i> <i>Timothy J. Makela CPA</i>		Printed Name JOKI, MAKELA; POLLACK, PLLC License Number 11826	

CONTENTS

Audited Financial Statements:	
Independent Auditor's Report	Page 4
Management's Discussion and Analysis	6
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities.....	13
Fund Financial Statements:	
Combined Balance Sheet – Governmental Funds	14
Reconciliation of the Balance Sheet of the Governmental Funds with the Statement of Net Assets	16
Combined Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds with the Statement of Activities.....	19
Combined Statement of Fiduciary Net Assets – Fiduciary Funds	20
Notes to Financial Statements	22
Required Supplemental Information:	
Budgetary Comparison Schedules – Major Funds	34

CONTENTS (CONTINUED)

Other Financial Information:

General Fund:

Statement of Revenues – Estimated and Actual	37
--	----

Statement of Expenditures and Comparison with Budget	38
--	----

Special Revenue Funds:

Statement of Revenues and Expenditures and Comparison with Budget – Library Fund	40
---	----

Statement of Revenues and Expenditures and Comparison with Budget – Park Fund	41
--	----

Fiduciary Funds – Statement of Changes in Assets and Liabilities.....	42
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Supplemental Report -

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	A-1
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Schedule of Findings	B-1
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JOKI, MAKELA & POLLACK, P.L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

301 N. SUFFOLK STREET

IRONWOOD, MICHIGAN 49938-2027

T. J. MAKELA, C.P.A.

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INDEPENDENT AUDITOR'S REPORT

Supervisor and Members of the Board
Township of Ontonagon
Ontonagon, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Township of Ontonagon as of and for the year ended March 31, 2006, which collectively comprise the basic financial statements of Township of Ontonagon, as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Township of Ontonagon as of March 31, 2006, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 16, 2006, on our consideration of Township of Ontonagon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 6 through 10 and pages 34 and 35, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Ontonagon's basic financial statements. The accompanying Other Financial Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Joti, Makela & Pollack, PLLC

Certified Public Accountants

Ironwood, Michigan
August 16, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

TOWNSHIP OF ONTONAGON

Year ended March 31, 2006

Management's Discussion and Analysis

This section of the Township of Ontonagon's (Township) annual financial report presents our discussion and analysis of the Township's financial performance during the year ended March 31, 2006. It is to be read in conjunction with the Township's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments*, as amended and interpreted, and is intended to provide the financial results for the fiscal year ending March 31, 2006.

Government-wide Financial Statements

The Government-wide financial statements appear first in the financial report. These financial statements include the statement of net assets and the statement of activities. They report information about the Township as a whole. The statements are prepared using the accrual method of accounting which is the accounting used by most private sector businesses. The statement of net assets includes all of the Township's assets and liabilities except the fiduciary funds. All current year revenues and expenses are reported in the statement of activities. The two statements report the governmental activities of the Township that include all services performed by the Township. These activities are funded primarily by property taxes, penal fines, charges for services and by federal and state grants.

The statement of net assets reports the Township's assets and liabilities. The corresponding balance between the assets and liabilities equals the net assets of the Township. This statement measures the financial strength of the Township; the greater the net asset figure, the healthier the financial position of the Township generally is. It helps management determine if the Township will be able to fund current obligations and whether they have resources available for future use.

The statement of activities shows the current year change in net assets on a revenue less expense basis. It generally shows the operating results for a given year of the Township. Any excess of revenues over expenditures results in a surplus for the year that in turn increases the net assets (or reduces a deficit) available to fund future needs of the Township.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fund Financial Statements

The Township's fund financial statements show a detail of funds that are determined to be significant, called major funds. The funds that are separately stated as major funds are the General Fund, Library Fund, Park Fund and Economic Development Fund. The Township has one nonmajor fund, the Liquor Law Enforcement Fund.

Governmental funds are accounted for by the modified accrual method of accounting (flow of current financial resources measurement focus). This method records revenues when all applicable eligibility requirements are met and resources are available to finance expenditures of the fiscal period. Expenditures are recorded when the related liability is incurred. The governmental fund financial statements show the detail of operations for a given year according to this method of accounting. This is similar to how the Township reported their finances in the past. The individual fund statements help management determine what financial resources are available on a short-term basis to fund operations.

Since the government-wide financial statements and the fund financial statements use different methods of accounting to report the Township's financial condition, a reconciliation is included in the financial statements showing the differences between the two types of statements.

Fiduciary funds, such as the Trust and Agency and Tax Collection Fund, are reported in the fiduciary fund financial statement, but are excluded from the government-wide reporting. The fiduciary fund financial statement reports resources that are not available to fund Township programs. The fiduciary fund financial statement reports similarly to governmental funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements -- Condensed Financial Information

Statement of Net Assets

The following is a condensed statement of net assets with a detailed analysis of the statement below.

	Governmental Activities	
	March 31,	
	2006	2005
ASSETS		
Current Assets:		
Cash	\$ 198,796	\$ 180,538
Taxes receivable	14,336	16,127
Other current assets	1,460	650
Current portion of notes receivable	<u>20,183</u>	<u> </u>
Total Current Assets	\$ 234,775	\$ 197,315
Noncurrent Assets:		
Notes receivable	\$ 70,317	\$ 55,000
Capital assets, net of accumulated depreciation	<u>215,297</u>	<u>184,547</u>
Total Noncurrent Assets	\$ 285,614	\$ 239,547
Total Assets	<u>\$ 520,389</u>	<u>\$ 436,862</u>
LIABILITIES		
Due other governmental units		\$ 23,522
Other current liabilities	\$ 14,336	19,886
Long-term liabilities:		
Due within one year	1,738	
Due in more than one year	<u>15,628</u>	<u> </u>
Total Liabilities	<u>\$ 31,702</u>	<u>\$ 43,408</u>
NET ASSETS		
Investment in capital assets	\$ 197,931	\$ 184,547
Restricted	67,281	64,769
Unrestricted	<u>223,475</u>	<u>144,138</u>
Total Net Assets	<u>\$ 488,687</u>	<u>\$ 393,454</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements – Condensed Financial Information

Statement of Net Assets (Continued)

The Township's total net assets are \$488,687 and \$393,454 as of March 31, 2006 and 2005, respectively.

The Township's restricted net assets as of March 31, 2006 and 2005, are \$67,281 and \$64,769, respectively. This consists of amounts restricted for unspent road tax levy collections.

The total unrestricted net assets are \$223,475 and \$144,138 as of March 31, 2006 and 2005, respectfully. This is the net accumulated result of the current and past years' operations. The balance in the unrestricted net assets shows that the Township has an ample amount of assets to fund liabilities at March 31, 2006 and 2005.

Statement of Activities

The results of operations for the Township as a whole are reported in the statement of activities. This statement reports the changes in net assets for the fiscal years ended March 31, 2006 and 2005.

		<u>Governmental Activities</u>	
		<u>Year ended March 31,</u>	
		<u>2006</u>	<u>2005</u>
Revenue:			
Program Revenues:			
Charges for services	\$	69,147	\$ 63,315
Operating grants and contributions		35,281	29,581
General Revenues:			
Taxes		179,797	158,013
State and federal grants		88,130	100,719
Interest and rents		6,130	4,416
Other revenue		<u>19,393</u>	<u>24,321</u>
Total Revenue	\$	397,878	\$ 380,365
Program expenses -			
Governmental activities		<u>302,645</u>	<u>331,849</u>
Increase in Net Assets	\$	<u>95,233</u>	\$ <u>48,516</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Activities (Continued)

The Township had an overall increase in net assets of \$95,233 for the year ended March 31, 2006, and an overall increase in net assets of \$48,516 for the year ended March 31, 2005.

The Township's total cost to fund governmental activities was \$302,645 and \$331,849 for the years ended March 31, 2006 and 2005, respectively. A majority of these costs were funded by property taxes, charges for services, penal fines and state and federal grants. This shows the Township has reliance on property taxes and grants to provide future funding for its programs and administrative costs.

Governmental Fund Budgetary Items

During the year, the Township revised its original budget to account for the changing environment of funding sources. A schedule showing the Township's original budget, final budget and the actual results are included as required supplementary information in the financial section of the audit report.

Capital Assets

At March 31, 2006, the Township had \$215,297 invested in capital assets net of accumulated depreciation. This amount increased during the fiscal year by \$30,750, consisting of additions totaling \$40,256, and depreciation charges of \$9,506.

At March 31, 2005, the Township had \$184,547 invested in capital assets net of accumulated depreciation. This amount increased during the fiscal year by \$114,542, consisting of additions totaling \$123,616, and depreciation charges of \$9,074.

Debt

The Township had \$15,628 of long-term debt at March 31, 2006. Also, there is a note payable of \$111,082 to other fund, which will be repaid over a period of several years.

Future Considerations

The Township has adopted a budget for the upcoming fiscal year that should not over expend its funding and leave the Township with a positive Fund Balance.

Contacting the Township

If you have any questions about this report or need additional information, contact the Township offices at Township of Ontonagon, 311 N. Steel Street, Ontonagon, MI 49953; telephone number (906) 884-2415.

BASIC
FINANCIAL
STATEMENTS

STATEMENT OF NET ASSETS
TOWNSHIP OF ONTONAGON, MICHIGAN

March 31, 2006

	Governmental Activities
ASSETS	
CURRENT ASSETS	
Cash	\$ 198,796
Delinquent property taxes	14,336
Due from other governmental unit	1,460
Current portion of notes receivable	<u>20,183</u>
TOTAL CURRENT ASSETS	\$ 234,775
NONCURRENT ASSETS	
Capital assets	\$ 1,091,134
Less accumulated depreciation	<u>(875,837)</u> 215,297
Notes receivable from:	
Non-profit corporation	30,000
Private corporation	<u>40,317</u> <u>70,317</u>
TOTAL ASSETS	\$ <u>520,389</u>
LIABILITIES	
Deferred revenues	\$ 14,336
Long-term liabilities:	
Due within one year	1,738
Due in more than one year	<u>15,628</u>
TOTAL LIABILITIES	\$ <u>31,702</u>
NET ASSETS	
Invested in capital assets, net of related debt	\$ 197,931
Restricted	67,281
Unrestricted	<u>223,475</u>
TOTAL NET ASSETS	\$ <u>488,687</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF ACTIVITIES
TOWNSHIP OF ONTONAGON, MICHIGAN

Year ended March 31, 2006

		<u>Program Revenues</u>		<u>Governmental Activities</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Governmental activities:				
Legislative	\$ 32,636			\$ (32,636)
General government	103,292	\$ 3,858		(99,434)
Public safety	28,755		\$ 603	(28,152)
Public works	1,920			(1,920)
Recreation and parks	118,483	65,289	34,678	(18,516)
Other functions	4,583			(4,583)
Interest on long-term debt	3,470			(3,470)
Depreciation - unallocated	<u>9,506</u>			<u>(9,506)</u>
Total Governmental Activities	\$ 302,645	\$ 69,147	\$ 35,281	\$ (198,217)
General revenues:				
Taxes				\$ 179,797
State and federal grants				88,130
Interest and rents				6,130
Other revenue				<u>19,393</u>
Total General Revenues				<u>\$ 293,450</u>
Change in Net Assets				\$ 95,233
Net assets at April 1, 2005				<u>393,454</u>
Net assets at March 31, 2006				<u>\$ 488,687</u>

The accompanying notes are an integral part of the financial statements.

COMBINED BALANCE SHEET -

TOWNSHIP OF

March 31,

	General Fund	Library Fund
ASSETS		
Cash	\$ 149,614	\$ 10,953
Delinquent taxes receivable	11,777	2,559
Due from other governmental unit	1,460	
Due from other funds	4,832	
Note receivable from:		
Non-profit corporation		
Private corporation		
Other fund		
Total Assets	<u>\$ 167,683</u>	<u>\$ 13,512</u>
LIABILITIES		
Liabilities:		
Due other funds		
Deferred revenues	\$ 11,777	\$ 2,559
Total Liabilities	\$ 11,777	\$ 2,559
FUND EQUITY		
Fund Equity - fund balance:		
Reserved	\$ 67,281	
Unreserved	<u>88,625</u>	<u>\$ 10,953</u>
Total Fund Equity	<u>\$ 155,906</u>	<u>\$ 10,953</u>
	<u>\$ 167,683</u>	<u>\$ 13,512</u>

The accompanying notes are an integral part of the financial statements.

GOVERNMENTAL FUNDS

ONTONAGON, MICHIGAN

2006

Park Fund	Economic Development Fund	Other Nonmajor Fund	Total Governmental Funds
\$ 17,625	\$ 20,604		\$ 198,796
			14,336
			1,460
			4,832
	47,500		47,500
	43,000		43,000
	<u>111,082</u>		<u>111,082</u>
<u>\$ 17,625</u>	<u>\$ 222,186</u>	<u>\$ 0</u>	<u>\$ 421,006</u>
\$ 4,832			\$ 4,832
			<u>14,336</u>
\$ 4,832			\$ 19,168
	\$ 174,729		\$ 242,010
<u>\$ 12,793</u>	<u>47,457</u>		<u>159,828</u>
\$ 12,793	\$ 222,186		\$ 401,838
<u>\$ 17,625</u>	<u>\$ 222,186</u>	<u>\$ 0</u>	<u>\$ 421,006</u>

RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
WITH THE STATEMENT OF NET ASSETS

TOWNSHIP OF ONTONAGON, MICHIGAN

March 31, 2006

Total fund equity of governmental activities	\$	401,838
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Amounts reported for governmental activities in the statement of net assets are different because:

Additions:

Capital assets used in governmental activities are not financial resources and
therefore are not reported as assets in governmental funds.

Cost of capital assets	\$	1,091,134	
Accumulated depreciation		<u>(875,837)</u>	215,297

Deductions:

Long-term liability for note payable of Park Fund to Economic Development
Fund will not use current available financial resources and therefore is
not reported as a liability in governmental funds. (111,082)

Long-term liabilities are not due and payable in the current year and therefore
are not reported in the governmental funds. (17,366)

Total net assets of governmental activities	\$	<u>488,687</u>
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The accompanying notes are an integral part of the
financial statements.

COMBINED STATEMENT OF REVENUES, EXPENDITURES

TOWNSHIP OF

Year ended

	General Fund	Library Fund
Revenues:		
Taxes	\$ 150,749	\$ 29,048
Licenses and permits	3,858	
State grants	88,724	3,358
Federal grants	4,506	
Fines and forfeits		21,220
Charges for services		4,796
Interest		191
Other revenue	<u>14,539</u>	<u>3,172</u>
TOTAL REVENUES	\$ 262,376	\$ 61,785
Expenditures:		
Current:		
Legislative	\$ 32,636	
General government	103,292	
Public safety	28,755	
Public works	1,920	
Recreation and culture	5,100	\$ 63,640
Other functions	4,583	
Capital outlay		974
Debt service		
TOTAL EXPENDITURES	\$ 176,286	\$ 64,614
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 86,090	\$ (2,829)
Other financing sources (use):		
Operating transfers from (to) other funds	\$ (3,396)	
Proceeds from borrowing		
	<u>\$ (3,396)</u>	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USE	\$ 82,694	\$ (2,829)
Fund balance at April 1, 2005	<u>73,212</u>	<u>13,782</u>
FUND BALANCE AT MARCH 31, 2006	\$ 155,906	\$ 10,953

The accompanying notes are an integral part of the financial statements.

AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

ONTONAGON, MICHIGAN

March 31, 2006

Park Fund	Economic Development Fund	Other Nonmajor Fund	Total Governmental Funds
			\$ 179,797
			3,858
\$ 5,000		\$ 603	97,685
			4,506
			21,220
60,493			65,289
209	\$ 5,729	1	6,130
<u>1,682</u>			<u>19,393</u>
\$ 67,384	\$ 5,729	\$ 604	\$ 397,878
			\$ 32,636
			103,292
			28,755
			1,920
\$ 49,743			118,483
			4,583
39,282			40,256
<u>10,181</u>			<u>10,181</u>
\$ 99,206			\$ 340,106
\$ (31,822)	\$ 5,729	\$ 604	\$ 57,772
\$ 4,000		\$ (604)	
<u>27,374</u>			<u>\$ 27,374</u>
\$ 31,374		\$ (604)	\$ 27,374
\$ (448)	\$ 5,729	\$ 0	\$ 85,146
<u>13,241</u>	<u>216,457</u>	<u>0</u>	<u>316,692</u>
<u>\$ 12,793</u>	<u>\$ 222,186</u>	<u>\$ 0</u>	<u>\$ 401,838</u>

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
WITH THE STATEMENT OF ACTIVITIES
TOWNSHIP OF ONTONAGON, MICHIGAN

March 31, 2006

Total net change in fund balance - governmental funds			\$ 85,146
Amounts reported for governmental activities in the statement of activities are different because:			
Capital outlays to purchase or construct capital assets are reported as expenditures in governmental funds. For governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeds depreciation in the period.			
	Capital outlays	\$ 40,256	
	Depreciation expense	<u>(9,506)</u>	30,750
Loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.			
	Loan proceeds	\$ (18,600)	
	Repayment	<u>1,234</u>	(17,366)
Proceeds of borrowing from other fund are reported as an other financing source in governmental funds. For governmental activities, those proceeds are shown in the statement of net assets as a liability. This liability is netted in the statement of net assets against interfund note receivable.			
			(8,774)
Repayment of borrowing from other fund is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.			
			<u>5,477</u>
Change in net assets of governmental activities			<u>\$ 95,233</u>

The accompanying notes are an integral part of the financial statements.

COMBINED STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

TOWNSHIP OF ONTONAGON, MICHIGAN

March 31, 2006

	Trust and Agency	Tax Collection	Total
ASSET			
Cash in bank	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
LIABILITIES			
Due other funds	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>

The accompanying notes are an integral part
of the financial statements.

NOTES
TO
FINANCIAL
STATEMENTS

NOTES TO FINANCIAL STATEMENTS
TOWNSHIP OF ONTONAGON, MICHIGAN

March 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Township of Ontonagon operates under an elected Board of Trustees. The financial statements of the Township have been prepared in conformity with generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial-reporting principles. The more significant of the Township's accounting policies are described below.

Financial Reporting Entity

In conformity with generally accepted accounting principles, other autonomously operated governmental organizations are not considered to be part of the Township entity for financial-reporting purposes. The criteria established for determining the various governmental organizations to be included in the Township's financial statements include oversight responsibility, scope of public service and special financing relationships.

On this basis, the financial statements of the local school district are not included in the financial statements of the Township. Educational services are provided to citizens through the local school district, which is a separate governmental entity.

Basis of Presentation

Government-wide Financial Statements

The Township government-wide financial statements (Statement of Net Assets and Statement of Activities) report information on all of the activities of the Township except for the fiduciary activities. All of the Township activities are considered to be governmental activities. Interfund activity including operating transfers between activities has been eliminated in the Government-wide financial statements.

Fund-based Financial Statements

Separate financial statements are provided on the basis of funds, each of which is considered a separate fiscal and accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Governmental and fiduciary funds are provided. The various fund types are grouped in the financial statements as major funds or nonmajor funds. The Township reports the General Fund, Library Fund, Park Fund and Economic Development Fund as major funds. The Liquor Law Enforcement Fund is a nonmajor fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund-based Financial Statements (Continued)

Governmental Fund Types

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund. The fund includes the general operating expenditures of the Township. Revenues are derived primarily from property taxes, state and federal grants and various local sources.

Special Revenue Funds – are used by the Township to account for proceeds of specific revenue sources (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund Type

Agency Funds – The Trust and Agency and Tax Collection Fund are used to account for assets held by the Township in a trustee capacity or as an agent for other governments and/or other funds. This fund is custodial in nature and does not involve measurement of results of operations.

Basis of Accounting

Government-wide Financial Statements

The Government-wide financial statements report all financial and capital assets, short and long-term liabilities, revenues, expenses, gains and losses using the economic resources measurement focus and the accrual basis of accounting. All revenue is recorded when earned and expenses are recorded when a liability is incurred.

The Statement of Activities reports net cost information based on the Township's functions. Direct expenses are listed by function with program revenues for each function offset against those expenses. Program revenues include charges for services that are fees and other charges to the users or recipients of the services the Township provides. Program revenues also include operating grants and contributions that are restricted for a particular purpose. Property taxes, nonrestricted state and federal aid and other revenues that are not program revenues are reported as general revenues.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

Fund-based Financial Statements

Governmental fund types and Agency Funds use the modified accrual basis of accounting and the flow of expendable financial resources (measurement focus). Under the modified accrual basis of accounting, revenues are recorded when all applicable eligibility requirements are met and resources are available (often referred to as "susceptible to accrual"). Revenues are available when revenues are collectible during the period and the actual collection will occur either (a) during the current period or (b) after the end of the period but in time to pay fund liabilities. The Township considers revenues to be available if they are expected to be collected within 60 days of the end of the year, except that tax revenues, fees and nontax revenues are recognized when received. Grants, entitlements and shared revenues are recorded when they are susceptible to accrual. Expenditure-based grants are recorded as revenue when all applicable eligibility requirements of the grants are met and resources are available. Expenditures, if measurable, are recorded when they have used or are expected to use current expendable financial resources, except unmatured interest on general long-term debt is recorded when due.

Budgets and the Budgetary Process

The Township Board adopts an annual operating budget, which can be amended by the Board throughout the year. Formal budgetary accounting is employed as a management control for all funds of the Township. For each of the funds for which a formal budget is adopted, the same basis of accounting is used to reflect actual revenues and expenditures recognized on the basis of generally accepted accounting principles. For this reason, there is no common basis for preparing a reconciliation between budgeted and actual amounts. The budgeted financial statements presented in this report reflect the final budget authorization, including all amendments. Budgets are adopted on the functional level and lapse at the end of the year.

Receivables

Credit has been extended to one non-profit corporation, one private corporation and to various units of government and is accounted for in the governmental fund types. No allowance for uncollectible accounts is included in the financial statements as the Township Board believes uncollectible accounts are few.

Due To and Due From Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue

Deferred revenues are recorded to present the uncollected portion of property taxes levied.

Property Tax Revenues

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 of the ensuing year with the final collection date of February 28 before they are added to the delinquent rolls. The Township records property taxes as a receivable and a deferred revenue on December 1; the property taxes are then recognized as revenue as collections are made, when monies are available for use to finance Township operations. Delinquent real property taxes of the Township and all other local units are purchased annually by the County. The Township bills and collects its own property taxes and also collects current rolls for the County, Intermediate School District, Local School District and Village of Ontonagon Downtown Development Authority (DDA). One taxpayer accounts for approximately 20 percent of the tax roll of the Township.

Capital Assets and Depreciation

Capital assets include buildings, furniture and fixtures, library books and recreation park infrastructure and equipment and are reported in the Government-wide financial statements. Capital assets are defined by the Township as assets with an acquisition cost of generally more than \$1,000 or betterments totaling \$10,000 with an estimated useful life in excess of five years. Assets meeting this criteria are recorded at historical cost or estimated historical costs if the amount is not known. Any donated capital assets are recorded at estimated fair market value at the date of donation. The costs of capital assets are charged to expense using an annual allocation of depreciation expense. Taking the depreciable cost of an asset and dividing that cost by its estimated useful life calculates the annual expense. The expense is recorded on the Government-wide Statement of Activities and included as a direct expense of an identifiable function if the assets sole purpose can be identified as being for that function. Depreciation expense (unallocated) is the amount of depreciation expense that cannot be charged to any particular function.

The capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	25-50 years
Office furniture and fixtures	5-20 years
Recreation park infrastructure	40 years
Other equipment	10 years
Library books	5 years

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Term Debt

The note payable to Economic Development Fund by the Park Fund is eliminated in the Government-wide financial statements. Because the note will not be paid with current available resources of the Park Fund, it is not included as a liability in the Fund-based Financial Statements.

Investment in Capital Assets, Net of Related Debt

This is a portion of net assets of the Township that consists of capital assets, net of accumulated depreciation and related debt.

Restricted Assets

Net assets are restricted when there are constraints placed on their use by external parties or by statute.

Unrestricted Net Assets

Net assets not meeting either criteria above are considered unrestricted.

Fund Equity

The unreserved fund equity for governmental funds represent the amount available for budgeting future operations. The reserve fund equity for governmental funds represents the amount reserved for the long-term portion of notes receivable and for unspent road tax levy collections.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B - CASH INFORMATION

All deposits were made either in banks insured by federal depository insurance or in a local credit union insured by the national credit union administration. Deposits were made in accordance with State of Michigan statutes and under authorization of the Township Board.

At March 31, 2006, total cash as reported by banks and credit union amounted to \$297,510, of which \$212,791 was covered by depository insurance, and \$84,719 exceeded coverage limits.

NOTE C - OPERATING TRANSFERS IN (OUT)

The details of operating transfers in (out) are as follows:

	<u>Operating Transfer</u>	
	<u>In</u>	<u>Out</u>
General Fund	<u>\$ 604</u>	<u>\$ 4,000</u>
Special Revenue Funds:		
Park	<u>\$ 4,000</u>	
Liquor Law Enforcement		<u>\$ 604</u>
	<u>\$ 4,000</u>	<u>\$ 604</u>

NOTE D - PROPERTY TAXES

A summary of the 2005 tax roll follows:

<u>Taxing Unit</u>	<u>Mills</u>	<u>Spread</u>	<u>Delinquent</u>	<u>Collected</u>
County	12.9560	\$ 783,536	\$ 64,607	\$ 718,929
State education tax	6.0000	359,270	21,965	337,305
Local school	18.0000	613,346	32,045	581,301
School bond	2.9000	173,771	10,616	163,155
Intermediate school	3.3401	199,992	12,225	187,767
Township	<u>2.5000</u>	<u>141,000</u>	<u>13,111</u>	<u>127,889</u>
TOTALS	<u>45.6961</u>	<u>\$ 2,270,915</u>	<u>\$ 154,569</u>	<u>\$ 2,116,346</u>
Taxable valuation (exclusive of industrial facilities tax roll)				<u>\$ 59,918,945</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE E - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Public Act 275 of 1980 Disclosure

The Township has no funds with a deficit as of March 31, 2006.

Public Act 621 of 1978 Disclosure

Public Act 621 of 1978, as amended, provides that a local unit of government shall not incur expenditures in excess of the amount appropriated. The Township had actual expenditures in excess of budgeted expenditures in its Special Revenue Funds in certain budgetary functions.

NOTE F - PROPERTY TAX ADMINISTRATION FEE

The Township has not established a subsidiary ledger to account for costs incurred in collection, assessing and reviewing of property tax levies as required by Public Act 503 of 1982. A summary of the transactions that would affect the balance sheet equity account for the year ended March 31, 2006, follows:

Receipts from charging administrative fee	\$ 31,976
Cost incurred	<u>40,285</u>
Excess of costs	<u>\$ (8,309)</u>

NOTE G - ECONOMIC DEVELOPMENT FUND

Note Receivable – Non-profit Corporation

On February 22, 2002, the Township entered into a loan agreement with a non-profit corporation in accordance with the Township's revolving loan fund policy. The loan was in the amount of \$70,000 with an interest rate of 3% annually. Principal payments of \$10,000 a year are due each July 1 beginning on July 1, 2003. Interest payments are due semi-annually beginning July 1, 2002 until July 1, 2009, at which time the remaining outstanding principal balance and any accrued interest is to be paid in full.

The loan is collateralized with a security interest in theater seats owned by the corporation and stage rigging and lighting equipment, which were to be purchased with the loan proceeds according to the agreement. There is no penalty for early payment of principal and interest. The outstanding balance of the loan was \$47,500 at March 31, 2006. Fund balance of the Economic Development Fund is reserved for the long-term portion of the loan not yet collected.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - ECONOMIC DEVELOPMENT FUND (CONTINUED)

Note Receivable – Private Corporation

On February 8, 2005, the Township entered into a loan agreement with a private corporation in accordance with the Township's revolving loan fund policy. The loan was in the amount of \$43,000 with an interest rate of 5% annually. Payments are \$398 per month, including interest, and will begin April 1, 2006, and will continue until March 1, 2018. The March 31, 2006, balance is \$43,000.

The loan is collateralized with a security interest on property owned by the corporation. Fund balance of the Economic Development Fund is reserved for the long-term portion of the loan not yet collected.

Note Receivable – Other Fund

On September 9, 2003, the Township entered into a loan agreement with the Township's Park Fund in accordance with the Township's revolving loan fund policy, as amended. The loan is limited to \$119,000 with an interest rate of 3% annually. At March 31, 2005, \$110,226 was loaned to the Park Fund. In June 2005, an additional \$8,774 was loaned to the Park Fund. The March 31, 2006, balance was \$111,082. Payments are \$761 per month including interest. Payments began November 19, 2004, and will continue until October 19, 2019.

The loan is collateralized with a security interest on the property of the Park Fund. Fund balance of the Economic Development Fund is reserved for the long-term portion of the loan not yet collected.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H – CAPITAL ASSETS

Following is a summary of changes in capital assets during the year ended March 31, 2006:

	Balance at April 1, 2005	Additions	Disposals	Balance at March 31, 2006
<u>Governmental Activities</u>				
Assets:				
Buildings and improvements	\$ 87,240			\$ 87,240
Office furniture and fixtures	79,126	\$ 974		80,100
Library books	702,291			702,291
Recreation park	<u>182,221</u>	<u>39,282</u>		<u>221,503</u>
	\$ 1,050,878	\$ 40,256		\$ 1,091,134
Less accumulated depreciation	<u>866,331</u>	<u>9,506</u>		<u>875,837</u>
Net Assets	<u>\$ 184,547</u>	<u>\$ 30,750</u>	<u>\$ 0</u>	<u>\$ 215,297</u>

NOTE I – INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables at March 31, 2006, were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>\$ 4,832</u>	Park	<u>\$ 4,832</u>

NOTE J – RESTRICTED NET ASSETS

Restricted net assets on the Statement of Net Assets consist of unspent road tax levy collections of \$67,281 recorded in the General Fund.

The following is a summary of reserved portions of fund balance for individual funds at March 31, 2006:

<u>Fund</u>	<u>Purpose</u>	<u>Amount of Reserve</u>
General	Road tax levy collections	\$ 67,281
Economic Development	Long-term portion of note receivable	<u>174,729</u>
		<u>\$ 242,010</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE K – LONG-TERM LIABILITIES

Long-term liability balances and activity for the year ended March 31, 2006, were as follows:

	Balance at March 31, <u>2005</u>	<u>Additions</u>	<u>Deductions</u>	Balance at March 31, <u>2006</u>	<u>Current Portion</u>
Note payable	\$ <u>0</u>	\$ <u>18,600</u>	\$ <u>1,234</u>	\$ <u>17,366</u>	\$ <u>1,738</u>

In June 2005, the Park Fund borrowed \$18,600 from a local bank at an interest rate of 4% to purchase a sanitary dumping station. The note requires monthly payments of \$200. Final payment is due October 2014. Future payments until maturity are as follows:

<u>Year ending March 31,</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total</u>
2007	\$ 1,738	\$ 662	\$ 2,400
2008	1,809	591	2,400
2009	1,882	518	2,400
2010	1,959	441	2,400
2011	2,039	361	2,400
2012	2,122	278	2,400
2013	2,209	191	2,400
2014	2,299	101	2,400
2015	<u>1,309</u>	<u>91</u>	<u>1,400</u>
	<u>\$ 17,366</u>	<u>\$ 3,234</u>	<u>\$ 20,600</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE L - RISK MANAGEMENT

The Township is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township has obtained coverage from commercial insurance companies. The Township has comprehensive general liability coverage of \$3,000,000 per occurrence and a \$5,000,000 aggregate limit, with no deductible amount.

All risk management activities are accounted for in the General and Special Revenue Funds of the Township. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

Management estimates that the amount of actual or potential claims against the Township as of March 31, 2006, will not materially affect the financial condition of the Township. Therefore, the financial statements contain no provision for estimated claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE M - STATE CONSTRUCTION CODE ACT INFORMATION

During the year ended March 31, 2006, the Township collected construction code service fees of \$3,858 and spent \$10,978 for enforcing the construction code. Because the fee structure is not intended to recover the full cost of enforcing the code and the Township has the ability to track the full costs and revenues, a separate fund has not been created to account for these monies.

REQUIRED
SUPPLEMENTAL
INFORMATION

BUDGETARY COMPARISON

TOWNSHIP OF

Year ended

	General Fund		
	Original Budget	Final Budget	Actual
Revenues:			
Taxes	\$ 139,320	\$ 146,150	\$ 150,749
Licenses and permits	4,300	4,200	3,858
State grants	81,780	88,724	88,724
Federal grants	4,700	4,494	4,506
Fines and forfeits			
Charges for services			
Interest			
Other revenue	<u>28,650</u>	<u>24,058</u>	<u>14,539</u>
TOTAL REVENUES	\$ 258,750	\$ 267,626	\$ 262,376
Expenditures:			
Current:			
Legislative	\$ 30,000	\$ 32,900	\$ 32,636
General government	104,150	105,032	103,292
Public safety	26,050	29,900	28,755
Public works	53,500	55,000	1,920
Recreation and culture		5,100	5,100
Other functions	23,450	18,780	4,583
Capital outlay	17,600	5,000	
Debt service			
TOTAL EXPENDITURES	\$ <u>254,750</u>	\$ <u>251,712</u>	\$ <u>176,286</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 4,000	\$ 15,914	\$ 86,090
Other financing sources (use):			
Operating transfers from (to) other funds	\$ (4,000)	\$ (3,350)	\$ (3,396)
Proceeds from borrowing			
	\$ (4,000)	\$ (3,350)	\$ (3,396)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USE	\$ 0	\$ 12,564	\$ 82,694
Fund balance at April 1, 2005	<u>73,212</u>	<u>73,212</u>	<u>73,212</u>
FUND BALANCE AT MARCH 31, 2006	<u>\$ 73,212</u>	<u>\$ 85,776</u>	<u>\$ 155,906</u>

The accompanying notes are an integral part of the
financial statements.

SCHEDULES - MAJOR FUNDS

ONTONAGON, MICHIGAN

March 31, 2006

Library Fund			Park Fund			Economic Development Fund		
Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
\$ 28,000	\$ 27,250	\$ 29,048						
3,200	3,200	3,358			\$ 5,000			
24,000	21,220	21,220						
3,600	3,600	4,796	\$ 40,000	\$ 40,000	60,493			
50	50	191			209			\$ 5,729
<u>1,950</u>	<u>1,950</u>	<u>3,172</u>			<u>1,682</u>			
\$ 60,800	\$ 57,270	\$ 61,785	\$ 40,000	\$ 40,000	\$ 67,384	\$ 0	\$ 0	5,729
\$ 63,985	\$ 61,185	\$ 63,640	\$ 43,439	\$ 43,439	\$ 49,743			
1,000	920	974	2,000	2,000	39,282			
			<u>10,300</u>	<u>10,300</u>	<u>10,181</u>			
\$ 64,985	\$ 62,105	\$ 64,614	\$ 55,739	\$ 55,739	\$ 99,206	\$ 0	\$ 0	0
\$ (4,185)	\$ (4,835)	\$ (2,829)	\$ (15,739)	\$ (15,739)	\$ (31,822)	\$ 0	\$ 0	5,729
			\$ 4,000	\$ 4,000	\$ 4,000			
					<u>27,374</u>			
\$ 0	\$ 0	\$ 0	\$ 4,000	\$ 4,000	\$ 31,374	\$ 0	\$ 0	0
\$ (4,185)	\$ (4,835)	\$ (2,829)	\$ (11,739)	\$ (11,739)	\$ (448)	\$ 0	\$ 0	5,729
<u>13,782</u>	<u>13,782</u>	<u>13,782</u>	<u>13,241</u>	<u>13,241</u>	<u>13,241</u>	<u>216,457</u>	<u>216,457</u>	<u>216,457</u>
<u>\$ 9,597</u>	<u>\$ 8,947</u>	<u>\$ 10,953</u>	<u>\$ 1,502</u>	<u>\$ 1,502</u>	<u>\$ 12,793</u>	<u>\$ 216,457</u>	<u>\$ 216,457</u>	<u>\$ 222,186</u>

OTHER
FINANCIAL
INFORMATION

STATEMENT OF REVENUES - ESTIMATED AND ACTUAL - GENERAL FUND

TOWNSHIP OF ONTONAGON, MICHIGAN

Year ended March 31, 2006

	Estimated Revenue	Actual Revenue	Variance Favorable (Unfavorable)
Taxes:			
Current property taxes:			
Operations	\$ 49,000	\$ 51,156	\$ 2,156
Road levy	49,000	51,156	2,156
Commercial forest reserve	5,132	5,467	335
Delinquent property taxes:			
Operations	6,000	7,143	1,143
Road levy	6,000	6,931	931
Swamp taxes	6,118	6,119	1
Property tax administrative fee	<u>24,900</u>	<u>22,777</u>	<u>(2,123)</u>
	\$ 146,150	\$ 150,749	\$ 4,599
Licenses and permits	4,200	3,858	(342)
State grants:			
Shared revenues	\$ 80,033	\$ 80,033	
Arts and cultural grant	5,100	5,100	
Other	<u>3,591</u>	<u>3,591</u>	
	\$ 88,724	\$ 88,724	\$ 0
Federal grants - National forest	4,494	4,506	12
Other revenue:			
Reimbursements	\$ 24,058	\$ 5,340	\$ (18,718)
Summer tax collection		<u>9,199</u>	<u>9,199</u>
	<u>\$ 24,058</u>	<u>\$ 14,539</u>	<u>\$ (9,519)</u>
TOTAL REVENUES	\$ 267,626	\$ 262,376	\$ (5,250)
Other financing source - operating transfer in from Liquor Law Enforcement Fund	<u>650</u>	<u>604</u>	<u>(46)</u>
TOTAL REVENUES AND OTHER FINANCING SOURCE	<u>\$ 268,276</u>	<u>\$ 262,980</u>	<u>\$ (5,296)</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF EXPENDITURES AND COMPARISON WITH BUDGET - GENERAL FUND

TOWNSHIP OF ONTONAGON, MICHIGAN

Year ended March 31, 2006

	<u>Expenditures</u>		Variance
	Budget	Actual	Favorable (Unfavorable)
LEGISLATIVE			
Township Board:			
Salaries	\$ 2,700	\$ 2,700	
Office supplies	10,500	10,821	\$ (321)
Professional and contractual services	16,500	16,098	402
Transportation	650	574	76
Dues and memberships	1,750	1,561	189
Publishing	800	882	(82)
TOTAL LEGISLATIVE	\$ 32,900	\$ 32,636	\$ 264
GENERAL GOVERNMENT			
Supervisor - salary	\$ 4,000	\$ 4,000	
Election:			
Salaries	\$ 2,800	\$ 2,743	\$ 57
Supplies	700	577	123
	\$ 3,500	\$ 3,320	\$ 180
Assessor:			
Salary	\$ 21,770	\$ 21,770	
Supplies	1,177	852	\$ 325
Transportation	159	159	
	\$ 23,106	\$ 22,781	\$ 325
Clerk - salary	12,600	12,424	176
Treasurer:			
Salary	\$ 13,715	\$ 13,715	
Supplies	635	705	\$ (70)
	\$ 14,350	\$ 14,420	\$ (70)
Board of review - salaries	400	410	(10)
Town hall and property:			
Salaries	\$ 14,500	\$ 14,410	\$ 90
Repairs and maintenance	1,992	1,921	71
Professional and contractual services	5,200	4,556	644
Communications	2,100	2,010	90
Insurance	9,784	9,783	1
Utilities	13,500	13,257	243
	\$ 47,076	\$ 45,937	\$ 1,139
TOTAL GENERAL GOVERNMENT	\$ 105,032	\$ 103,292	\$ 1,740

STATEMENT OF EXPENDITURES AND COMPARISON WITH BUDGET -
GENERAL FUND (CONTINUED)

	<u>Expenditures</u>		<u>Variance</u>
	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
PUBLIC SAFETY			
Liquor law enforcement	\$ 650	\$ 603	\$ 47
Fire protection - contracted services	18,500	17,174	1,326
Zoning board:			
Salaries	\$ 9,200	\$ 9,421	\$ (221)
Transportation	<u>1,550</u>	<u>1,557</u>	<u>(7)</u>
	<u>\$ 10,750</u>	<u>\$ 10,978</u>	<u>\$ (228)</u>
TOTAL PUBLIC SAFETY	\$ 29,900	\$ 28,755	\$ 1,145
PUBLIC WORKS - Highways and streets	55,000	1,920	53,080
RECREATION AND CULTURE -			
Theater - grant distribution	5,100	5,100	
OTHER FUNCTIONS			
Insurance and bonds	\$ 2,441	\$ 2,441	
Employer's share of social security and unemployment costs	15,000	1,229	\$ 13,771
Miscellaneous	<u>1,339</u>	<u>913</u>	<u>426</u>
TOTAL OTHER FUNCTIONS	\$ 18,780	\$ 4,583	\$ 14,197
CAPITAL OUTLAY -			
Township board	<u>5,000</u>		<u>5,000</u>
TOTAL EXPENDITURES	\$ 251,712	\$ 176,286	\$ 75,426
Other financing use - operating transfers to other funds	<u>4,000</u>	<u>4,000</u>	
TOTAL EXPENDITURES AND OTHER FINANCING USE	<u>\$ 255,712</u>	<u>\$ 180,286</u>	<u>\$ 75,426</u>

The accompanying notes are an integral part of the
financial statements.

STATEMENT OF REVENUES AND EXPENDITURES AND COMPARISON
WITH BUDGET - LIBRARY FUND

TOWNSHIP OF ONTONAGON, MICHIGAN

Year ended March 31, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Current property taxes	\$ 27,250	\$ 25,577	\$ (1,673)
Delinquent property taxes		3,471	3,471
State grants	3,200	3,358	158
Penal fines	21,220	21,220	
Sales and charges for services	3,600	4,796	1,196
Interest	50	191	141
Other revenue:			
Fees	600	497	(103)
Fines	1,000	1,178	178
Donations and other	<u>350</u>	<u>1,497</u>	<u>1,147</u>
	\$ 57,270	\$ 61,785	\$ 4,515
Expenditures:			
Current:			
Recreation and culture:			
Salaries and fringes	\$ 40,000	\$ 40,371	\$ (371)
Office supplies	1,500	2,754	(1,254)
Communications	1,300	1,530	(230)
Professional services and contracts	6,000	5,053	947
Transportation	300	577	(277)
Repairs and maintenance		323	(323)
Books and subscriptions	12,000	12,238	(238)
Miscellaneous	85	794	(709)
Capital outlay	<u>920</u>	<u>974</u>	<u>(54)</u>
	\$ 62,105	\$ 64,614	\$ (2,509)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (4,835)</u>	<u>\$ (2,829)</u>	<u>\$ 2,006</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES AND EXPENDITURES AND COMPARISON
WITH BUDGET - PARK FUND

TOWNSHIP OF ONTONAGON, MICHIGAN

Year ended March 31, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Charges for services - park fees	\$ 40,000	\$ 60,493	\$ 20,493
State grant		5,000	5,000
Interest		209	209
Other		<u>1,682</u>	<u>1,682</u>
	\$ 40,000	\$ 67,384	\$ 27,384
Expenditures:			
Current:			
Recreation and culture:			
Salaries and fringes	\$ 27,000	\$ 28,746	\$ (1,746)
Supplies	5,239	3,855	1,384
Contracted services	1,500	3,078	(1,578)
Repairs and maintenance	2,000	2,667	(667)
Miscellaneous	500	704	(204)
License and fees	400	875	(475)
Public utilities	6,800	9,818	(3,018)
Capital outlay	2,000	39,282	(37,282)
Debt service	<u>10,300</u>	<u>10,181</u>	<u>119</u>
	\$ 55,739	\$ 99,206	\$ (43,467)
(DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (15,739)	\$ (31,822)	\$ (16,083)
Other financing sources:			
Operating transfer from General Fund	\$ 4,000	\$ 4,000	
Proceeds from borrowing		<u>27,374</u>	<u>\$ 27,374</u>
	\$ 4,000	\$ 31,374	\$ 27,374
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	\$ (11,739)	\$ (448)	\$ 11,291

The accompanying notes are an integral part of the
financial statements.

STATEMENT OF CHANGES IN ASSETS

TOWNSHIP OF

Year ended

	Balance at April 1, 2005	Trust and Agency		Balance at March 31, 2006
		Additions	Deductions	
ASSETS				
Cash in bank	<u>\$ 0</u>	<u>\$ 39,063</u>	<u>\$ 39,063</u>	<u>\$ 0</u>
LIABILITIES				
Due General Fund				
Due to other units of government:				
Ontonagon County		\$ 4,232	\$ 4,232	
State of Michigan		34,826	34,826	
Federal government				
Others		<u>5</u>	<u>5</u>	
	<u>\$ 0</u>	<u>\$ 39,063</u>	<u>\$ 39,063</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

AND LIABILITIES - FIDUCIARY FUNDS

ONTONAGON, MICHIGAN

March 31, 2006

Balance at April 1, 2005	<u>Tax Collection</u>		Balance at March 31, 2006
	Additions	Deductions	
<u>\$ 0</u>	<u>\$ 2,403,358</u>	<u>\$ 2,403,358</u>	<u>\$ 0</u>
	\$ 152,421	\$ 152,421	
	1,075,759	1,075,759	
<u> </u>	<u>1,042,158</u>	<u>1,042,158</u>	<u> </u>
<u>\$ 0</u>	<u>\$ 2,270,338</u>	<u>\$ 2,270,338</u>	<u>\$ 0</u>

SUPPLEMENTAL
REPORT

JOKI, MAKELA & POLLACK, P.L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS
301 N. SUFFOLK STREET
IRONWOOD, MICHIGAN 49938-2027

T. J. MAKELA, C.P.A.
W. J. JOKI, C.P.A.
A. R. POLLACK, C.P.A., C.S.E.P.
MEMBERS

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REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

Supervisor and Members of the Board
Township of Ontonagon
Ontonagon, Michigan

We have audited the financial statements of the government activities, each major fund and the aggregate remaining fund information of Township of Ontonagon as of and for the year ended March 31, 2006, which collectively comprise the Township of Ontonagon's basic financial statements and have issued our report thereon dated August 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Township of Ontonagon's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Township of Ontonagon's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 2006-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described in the accompanying Schedule of Findings is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Township of Ontonagon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*. The Township did not obtain approval from the State of Michigan Municipal Finance Division prior to obtaining a bank loan of \$18,600. The Township is required to complete and file a qualifying statement with Municipal Finance Division prior to borrowing monies from outside parties.

This report is intended solely for the information and use of the Township Board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Joti, Makela & Pollack, PLLC

Certified Public Accountants

Ironwood, Michigan
August 16, 2006

SCHEDULE OF FINDINGS
TOWNSHIP OF ONTONAGON, MICHIGAN
Year ended March 31, 2006

Reportable Conditions:

(2006-1) Michigan Public Act 621 of 1978

Michigan Public Act 621 of 1978, as amended, provides that a local unit of government shall not incur expenditures in excess of the amount appropriated. The Township had actual expenditures in excess of budgeted expenditures in its Special Revenue Funds in certain budgetary functions.

We recommend that the Township review the requirements of Michigan Public Act 621 of 1978 and comply with those requirements by amending its budget as necessary.